



Greek Parliament adopts 2011 Budget

- The Greek Parliament adopted yesterday, December 22nd, the **2011 Budget law, which targets a reduction of the fiscal deficit by 2 percentage points of GDP; from 9.4% in 2010 to 7.4% in 2011.**
- In addition the Greek Parliament recently adopted measures **supporting the budget and the Economic Policy Programme** including:
 - ♦ **Consolidation of state owned enterprises** to improve their financial performance
 - ♦ **A major labour market reform**
 - ♦ **Controlling the volume and dynamics of employment in the general government**
 - ♦ **Consolidation of ATE bank**
 - ♦ **Changes in taxation**
- The Greek Government has also adopted decisions in order to accelerate the implementation of its **real estate and privatisation programme.**

Table of Contents

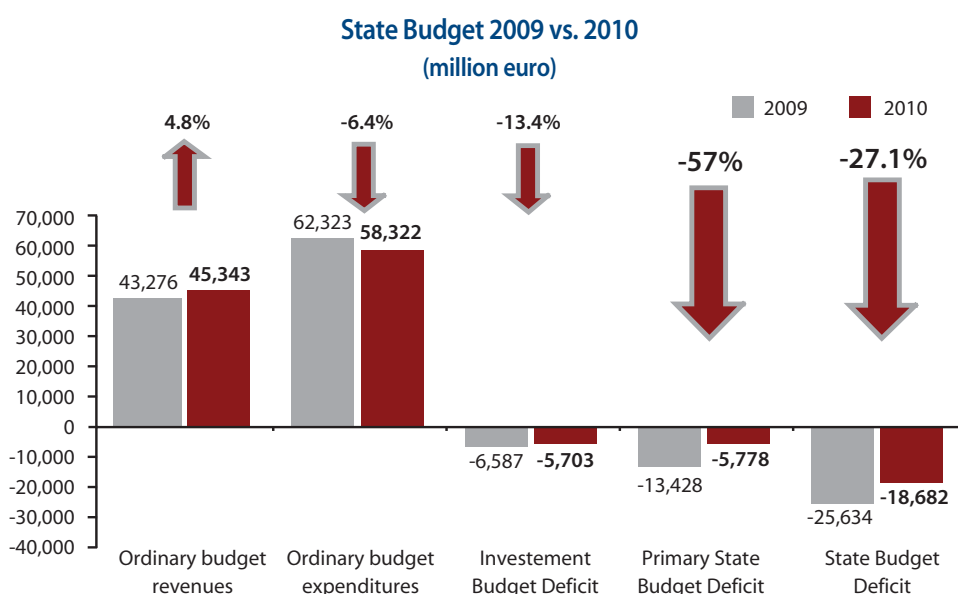
- 2010 Budget on track
- 2011 Budget law
- Emergency measures supporting the 2011 Budget and the Economic Policy Programme
- Real estate and asset privatisation programme

2010 Budget on track

Deficit decreased by 27.1% in the first eleven months of 2010

The preliminary data available for the state budget execution in the eleven months of 2010 (January – November 2010), **show that the deficit, on a fiscal basis, shrank by more than 7 bil. Euro or by 27.1% y-o-y basis. The primary state budget deficit declined by 57% y-o-y against an estimated 54% annual decline.**

The deficit restriction is mainly attributed to the **significant reduction of expenditures.** Ordinary state budget expenditures declined by 6.4% y-o-y. In particular, **primary**



Source : Ministry of Finance; figures relate to the State Budget execution and differ from ESA95 General Government data

expenditures decreased by 10.1% against an estimated 9.0% while interest expenditures increased by 5.7%.

Net revenues of the ordinary budget increased by 4.8%, performing better than the ten month period (3.7%). This development is mainly due to the **increased VAT revenues.**

2011 Budget law

In 2010, Greece is achieving the largest fiscal adjustment ever achieved by a Eurozone country in a single year. The deficit is estimated to be reduced by 6 percentage points, i.e. a fiscal adjustment larger than the 5.5 percentage points which was initially projected and despite the revision and reclassification of 2009 fiscal data by Eurostat. The Eurostat revision of fiscal data for the period 2006-2009 affected debt and deficit figures, mainly via the reclassification of public corporations into general government data and the adjustment for off-market swaps.

The 2011 budget is the first budget to be drafted and executed following the principle of fiscal management at the level of general government, which among others provides for:

- Expenditure ceilings.
- Borrowing caps.
- Setting up of contingency reserves.
- Compulsory submission of a supplementary budget in case of expenditure overruns above the reserve.
- Procedures for controlling expenditure commitments.
- Compulsory regular (monthly, quarterly, and biannually) reporting of General Government budget execution.

Fiscal adjustment in 2011 will amount to 2% of GDP (from 9.4% to 7.4%) **or about 5 billion Euro** (from 22 billion euro to 17 billion euro). The size of the required fiscal adjustment is larger than initially projected in the Economic Policy Programme. To support this effort the Greek Government tightened the fiscal consolidation effort by adopting extra measures compared to May Economic Policy Programme. The new measures included in the 2011 budget focus on public enterprises, controlling health expenditure, means-testing family benefits, reduction in military expenditure, transfers and operating expenses on the expenditure side and on the revenue side, the focus is on fighting tax evasion and the active management of state assets.

TOTAL	14330	6,4%
REVENUES	7830	3,5%
Carry-over of 2010 measures	1500	0,7%
Measures for 2011 already included in the Economic Policy Programme	4050	1,8%
New measures on the revenue side for 2011	2280	1,0%
EXPENDITURES	6500	2,9%
Carry-over of 2010 measures	1150	0,5%
Measures for 2011 already included in the Economic Policy Programme	1500	0,7%
New measures on the expenditure side for 2011	3850	1,7%

Emergency measures supporting the 2011 Budget and the Economic Policy Programme

The government's policy remains anchored in reducing the deficit to below 3% of GDP by 2014, return to positive growth by the end of 2011, increase competitiveness and safeguard the

stability of the financial sector. To this effect, sweeping structural changes are implemented while continuing the fiscal consolidation effort. A number of measures have been recently adopted by the Greek Parliament in order to support the Economic Policy Programme.

State owned enterprises

The government prioritizes the actions needed to improve the financial performance of state enterprises. In this context, it has put in place **measures in order to enhance transparency and accountability in financial management and to restrict the wage expenditure for SOEs.**

- The financial supervision of SOEs is centralized at the Ministry of Finance.
- Quarterly submission of financial statements, audited by chartered accountants, to the Ministry of Finance.
- Horizontal wage cut by 10%.
- Set up a ceiling for wages.
- Set up a ceiling for extra payments (10% of the wage expenditure at company level).

Tax measures

- Increase in the reduced VAT rate (from 11% to 13%) and in the ultra-reduced (from 5.5% to 6.5%).
- Decrease in the VAT rate on hotels and other guest accommodation to enhance competitiveness in the tourism sector, as well as on pharmaceuticals.
- Changing the structure in the excise tax on tobacco.

Labour market reforms

The Greek Parliament has adopted further legislation aiming at enhancing labour market flexibility:

- Firm-level agreements prevail over those under sector or occupational agreements, without undue restrictions.
- Extension of the probation period for new jobs to one year.
- Revision of the mediation and arbitration system to guarantee symmetric access for all parties.
- Reduction in the over-time payment for part – time jobs.
- Increase in the temporal limits in the use of temporary working agencies.

Human resources in the general government

The government continues controlling the volume and dynamics of employment in the general government:

- Implementation of the rule of not more than 1 recruitment for 5 retirements in the whole public sector.
- The rule 1:5 applies to secondments from entities of the general government to the central government.
- Reduction by 15% in 2011 compared to 2010 of fixed term contracts.

ATE bank

With the aim to safeguard the sustainability of the bank, the Government – as the major stakeholder of the bank – adopted some consolidation measures:

- Horizontal wage cut by 10% and abolition of some allowances.
- Cancellation of planned recruitment.

Real estate and asset privatisation programme

The Interministerial Committee for Asset Restructuring and Privatisations (ICARP) in a meeting held on December 15, 2010 decided on the following:

Public real estate assets

- **Inventory of commercial state-owned real estate assets.** The Special Secretariat for Asset Restructuring and Privatisations of the Ministry of Finance was given the mandate by the ICARP to proceed immediately with the appointment of specialist advisors aiming at the identification, qualitative and investment analysis for all commercially important real estate assets, with a view to provide reliable investment data for a feasible portfolio of properties. The inventory shall be completed by June 2011.
- **Development of the real estate property of the former airport of Athens "Elliniko".** In order to accelerate the development of the area of Ellinikon using the recently legislated "fast-track" investment procedures, the ICARP decided the establishment of a Special Purpose Vehicle under the name Ellinikon S.A. dedicated to the administration of the property and to appoint financial and technical advisors.
- **Selection and promotion of the privatisation of major real estate assets.** The ICARP has announced a number of specific major real estate assets for immediate development, and decided also to establish dedicated Project Management Teams, assisted by special advisors, for the removal of administrative barriers and the promotion of their development.
- **Institutional and organizational changes to improve management of commercial public real-estate assets.** In this context ICARP proposed the establishment of a General Secretariat for Public Real Estate Management in the Ministry of Finance and the establishment in the future of a Special Purpose Vehicle in the form of S.A. for the securitization of mature public real estate assets. At a second phase this vehicle will be listed in the Athens Stock Exchange.

Privatisation programme

Appointment of financial and legal advisors for:

- The extension of the concession of the **Athens International Airport (AIA)** and the assessment of the best available options for the privatisation of the stake of the Hellenic Republic.
- The assessment of the best available options for its stake in **DEPA** (natural gas supplier) and **DESFA** (natural gas network operator).

- The attraction of a strategic investor in the **Hellenic Defense Systems (EAS)**.

Request for Proposals for the appointment of financial and legal advisors (the process will be completed within the first quarter 2011) for:

- The unbundling of the functions of the **Loan and Consignment Fund**.
- The entry of strategic investors in **regional airports** through concession agreements.
- The concession agreement for the construction of the **new "Kastelli" Airport in Crete and the existing "Nikos Kazantzakis" Airport in Heraklion**.
- The assessment of the best available options for the **privatisation of the stake in TRAINOSE** (national railways operating company).
- The development of **real estate of the OSE group** (national railways).
- The extension of concessions for the Attiki motorway (highway around Athens) and the Egnatia motorway (Northern highway).
- The attraction of a strategic investor for the **Hellenic Post Office**.
- The extension of concessions for the **frequency spectrum and the Digital Dividend**
- The assessment of the best available options for the government stake in the **port system of the wider Athens area**.
- The strategic study and the assessment of the best available options for the privatisation of the government stake in **11 regional ports** through concession agreements.
- The strategic study and concession agreements for possible **marinas in 850 regional ports**.
- The assessment of the best available options for the privatisation of **LARCO** (nickel mining company).
- The assessment of the best available options for the management of the stake in **EYDAP** and **EYATH** (water suppliers).
- The extension of the concession of **OPAP** (lotteries and betting company) and the assessment of the best available options for the management of the stake.
- The introduction of a strategic investor in **Horse Racing Organization, ODIE**.
- The sale of the state's participation in the **"Mont Parnes" Casino**.
- The partial privatisation and introduction of strategic investors into the **state lottery tickets system** (Ethniko, Laiko).

The aim of the state asset management and privatisation program, which is in line with Economic and Financial Policy Programme of Greece, **is an inflow of revenue amounting to 7 billion euro within the 2011-2013 period, of which at least one billion euro in 2011.**